MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

PPE0045 – PRINCIPLES OF MACROECONOMICS

(Foundation in Management)

07 OCTOBER 2016
3 p.m. – 5 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **TEN (10)** pages.
2. Answer **ALL** questions in Section A and B.
3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS [40 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the **OMR** sheet.

1. GDP can be calculated by summing:
   A. consumption, investment, government purchases, exports.
   B. consumption, investment, government purchases, and net exports.
   C. consumption, investment, wages, and rents.
   D. consumption, investment, government purchases, and imports.

2. National income accountants can avoid multiple counting by:
   A. including transfer payments in their calculations.
   B. only counting final goods.
   C. counting both intermediate and final goods.
   D. only counting intermediate goods.

3. Tom Atoe grows fruits and vegetables for home consumption. This activity is:
   A. excluded from GDP in order to avoid double counting.
   B. excluded from GDP because an intermediate good is involved.
   C. productive but is excluded from GDP because no market transaction occurs.
   D. included in GDP because it reflects production.

4. The concept of net domestic investment refers to:
   A. the amount of machinery and equipment used up in producing the GDP in a specific year.
   B. the difference between the market value and book value of outstanding capital stock.
   C. gross domestic investment less net exports.
   D. total investment less the amount of investment goods used up in producing the year's output.

5. Transfer payments are:
   A. excluded when calculating GDP because they only reflect inflation.
   B. excluded when calculating GDP because they do not reflect current production.
   C. included when calculating GDP because they are a category of investment spending.
   D. included when calculating GDP because they increase the spending of recipients.

Continued...

6.Other things the same, when the price level falls, interest rates
A. rise, so firms increase investment.
B. rise, so firms decrease investment.
C. fall, so firms increase investment.
D. fall, so firms decrease investment.

7. Which of the following shifts aggregate supply to the left?
A. An increase in the price level
B. A decrease in the money supply
C. An increase in net exports
D. Government passes a new investment tax credit

8. The aggregate supply curve is upward sloping in
A. the short and long run.
B. neither the short nor long run.
C the long run, but not the short run.
D. the short run, but not the long run.

9. The APC can be defined as the fraction of a:
A. change in income that is not spent.
B. change in income that is spent.
C. specific level of total income that is not consumed.
D. specific level of total income that is consumed.

10. The consumption and saving schedules reveal that the:
A. MPC is greater than zero, but less than one.
B. MPC and APC are equal at the point where the consumption schedule intersects the 45-degree line.
C. APS is positive at all income levels.
D. MPC is equal to or greater than one at all income levels.

11. Part-time workers are counted as:
A. unemployed and therefore the official unemployment rate may overstate the level of unemployment.
B. unemployed and therefore the official unemployment rate may understate the level of unemployment.
C. fully employed and therefore the official unemployment rate may overstate the level of unemployment.
D. fully employed and therefore the official unemployment rate may understate the level of unemployment.

Continued...

12. A short period of falling incomes and rising unemployment is called a
    A. depression.
    B. recession.
    C. expansion.
    D. business cycle.

13. The multiplier effect is the multiplied impact on
    A. the money supply of a given increase in government purchases.
    B. tax revenues of a given increase in government purchases.
    C. investment of a given increase in interest rates.
    D. aggregate demand of a given increase in government purchases.

14. If the multiplier is 5, the *MPC* is
    A. 0.05.
    B. 0.5.
    C. 0.6.
    D. 0.8.

15. An increase in the *MPC*
    A. increases the multiplier, so that changes in government expenditures have a larger effect on aggregate demand.
    B. increases the multiplier, so that changes in government expenditures have a smaller effect on aggregate demand.
    C. decreases the multiplier, so that changes in government expenditures have a larger effect on aggregate demand.
    D. decreases the multiplier, so that changes in government expenditures have a smaller effect on aggregate demand.

16. Tax cuts _____.
    A. and increases in government expenditures shift aggregate demand right
    B. and increases in government expenditures shift aggregate demand left
    C. shift aggregate demand right while increases in government expenditures shift aggregate demand left
    D. shift aggregate demand left while increases in government expenditures shift aggregate demand right

Continued...

17. Which of the following shifts aggregate demand to the left?
    A. An increase in the price level
    B. An increase in the money supply
    C. A decrease in the price level
    D. A decrease in the money supply

18. The existence of money leads to
    A. greater specialization in production, but not a higher standard of living.
    B. a higher standard of living, but not greater specialization.
    C. greater specialization and a higher standard of living.
    D. neither greater specialization nor a higher standard of living.

19. Which of the following is included in M2 but not in M1?
    A. Currency
    B. Demand deposits
    C. Savings deposits
    D. All of the above are included in both M1 and M2

20. On a bank's T-account,
    A. both deposits and reserves are assets.
    B. both deposits and reserves are liabilities.
    C. deposits are assets, reserves are liabilities.
    D. reserves are assets, deposits are liabilities.

21. When a bank loans out $1,000, the money supply
    A. does not change.
    B. decreases.
    C. increases.
    D. may do any of the above.

22. Discouraged workers
    A. are not counted either as part of the adult population or as part of the labor force.
    B. are counted as part of the adult population, but not as part of the labor force.
    C. are counted as part of the adult population, and as unemployed.
    D. None the above are correct.

Continued...

23. The unemployment rate is computed as the number of unemployed
    A. divided by the labor force times 100.
    B. divided by the number of people employed times 100.
    C. divided by the adult population times 100.
    D. times the participation rate times 100

24. The labor force includes:
    A. employed workers and persons who are officially unemployed.
    B. employed workers, but excludes persons who are officially unemployed.
    C. full-time workers, but excludes part-time workers.
    D. permanent employees, but excludes temporary employees.

25. If the unemployment rate is 9 percent and the natural rate of unemployment is 5 percent, then the:
    A. frictional unemployment rate is 5 percent.
    B. cyclical unemployment rate and the frictional unemployment rate together are 5 percent.
    C. cyclical unemployment rate is 4 percent.
    D. natural rate of unemployment will eventually increase.

26. Unemployment involving a mismatch of the skills of unemployed workers and the skills required for available jobs is called:
    A. frictional unemployment.
    B. structural unemployment.
    C. cyclical unemployment.
    D. compositional unemployment.

27. The *inflation rate* is defined as the
    A. price level.
    B. change in the price level from one period to the next.
    C. percentage change in the price level from the previous period.
    D. price level minus the price level from the previous period

28. If the Consumer Price Index rises from 300 to 333 in a particular year, the rate of inflation in that year is:
    A. 11 percent.
    B. 33 percent.
    C. 91 percent.
    D. 10 percent.

Continued...

29. Cost-push inflation:
A. reduces real output.
B. increases real output.
C. reduces the unemployment rate.
D. raises the natural rate of unemployment.

30. The current account in a nation's balance of payments includes:
A. its goods exports and imports, and its services exports and imports.
B. foreign purchases of domestic assets.
C. purchases of foreign assets.
D. all of these.

31. If a nation's goods exports are $55 billion, while its goods imports are $50 billion, we can conclude with certainty that this nation has a:
A. balance of trade (goods) surplus.
B. balance of payments surplus.
C. positive balance on current account.
D. positive balance on goods and services.

32. Tariffs:
A. may be imposed either to raise revenue (revenue tariffs) or to shield domestic producers from foreign competition (protective tariffs).
B. are also called import quotas.
C. are excise taxes on goods exported abroad.
D. are per unit subsidies designed to promote exports.

33. The production possibilities for country X are either 8,000 bushels of soybeans or 10,000 bushels of wheat. The production possibilities for country Y are either 4,000 bushels of soybeans or 6,000 bushels of wheat. Which of the following is true?
A. Country Y should specialize in the growing of soybeans according to the principle of comparative advantage
B. Country X is the least cost producer of wheat
C. The domestic opportunity cost of wheat production is lower in country Y
D. The high cost producer of soybeans is country X.

34. A key difference between import quotas and Tariff is that the:
A. Domestic government administers the former, whereas the foreign government administers the latter
B. Foreign government administers the former, whereas the domestic government administers the latter
C. One is a tax, whereas the other is a quantity limit
D. One raises the price of the imported product involved, whereas the other one does not.

Continued...

35. Which of the following would be an indication that a nation has a balance of payments deficit?
A. It is buying gold abroad
B. Its imports exceed its exports
C. Its holdings of official reserves are declining
D. It is borrowing abroad to finance capital investments.

36. In the Balance of Payments statement, a current account surplus will be matched by a
A. capital and financial accounts deficit
B. capital and financial accounts surplus
C. trade deficit
D. trade surplus

37. A trade deficit means a net
A. Inflow of payments for goods and services
B. Outflow of goods and services
C. Inflow of goods and services
D. Excess of exports over imports

38. When the exchange rate between pounds and dollars moves from $2 = 1 pound to $1 = 1 pound, we say that the dollar has:
A. Depreciated
B. Appreciated
C. Inflated
D. Deflated

39. A currency depreciation on the foreign exchange market will:
A. Encourage imports to the country whose currency has depreciated
B. Discourage imports to the country whose currency has depreciated
C. Discourage exports to the country whose currency has depreciated
D. Encourage foreign travel by the citizens of the country whose currency has depreciated

40. If there is *no* comparative advantage between two countries:
A. One country must be more productive in producing all goods than the other
B. The benefits resulting from trade are increased
C. There are no gains from specialization and trade
D. Each country should specialize in the production of a particular commodity

Continued...

SECTION B: STRUCTURED QUESTIONS [60 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1 (20 Marks)

A. Use the figures in the table below to answer the following questions.

	Billions
Small time deposits	$1,250
Savings deposits, including money-market deposit accounts	1,620
Money-market mutual funds	905
Checkable deposits	836
Currency	325

(i) What is the value of *M*1? (3 marks)
(ii) What is the value of *M*2? (3 marks)

B. In the table below are statistics showing the labor force and total employment in month 1 and month 2 of the same year. Copy the table into your answer booklet and complete the table.(Number of persons is in thousands.) (8 marks)

	Month 1 (thousands)	Month 2 (thousands)
Labor force	136,297	137,065
Employed	129,558	129,526
Unemployed	____	____
Unemployment rate (%)	____	____

Continued ...

B. Which of the following are included and which are excluded in calculating this year's GDP? Explain in each instance.

(i) A monthly scholarship check received by an economics student (2 marks)
(ii) The purchase of a new truck by a trucking company (2 marks)
(iii) Government purchase of missiles from a private business (2 marks)

Question 2 (20 Marks)

A. Suppose there are only two planets in the universe, Yenope and Yuranda. On each planet, its inhabitants consume two products—coffee and fried chicken. Each planet has an equal population. Producing solely coffee, Yenope can produce 50 units of coffee, while Yuranda can produce 80 units of coffee. Producing solely fried chicken, Yenope can produce 25 units, while Yuranda can produce 30 units.

(i) Which planet has the absolute advantage in coffee? In fried chicken? (4 marks)
(ii) Which planet has the comparative advantage in coffee? In fried chicken? (6 marks)

B. Differentiate between expansionary and restrictive monetary policies. (10 marks)

Question 3 (20 Marks)

A. table below lists the domestic supply, demand and price levels for sugar in US and the Mexico. Use this information to answer the following questions.

	US		Mexico	
Price	Supply	Demand	Supply	Demand
$0	0	200	0	255
0.25	25	175	30	230
0.50	50	150	55	205
0.75	75	125	80	180
1.00	100	100	105	155
1.25	125	75	130	130
1.50	150	50	155	105
1.75	175	25	180	80
2.00	200	0	205	55

Continued...

(i) What is the domestic equilibrium level of quantity and price of sugar in each country? (4 marks)

(ii) Suppose the world price of sugar is currently $1.00. Will each country face a shortage, surplus or neither for sugar? (4 marks)

(iii) If the domestic markets for sugar of each country were combined, what would be the equilibrium quantity and price of imports/exports? (4 marks)

(iv) Which country will import sugar and which will export? (3 marks)

B. Explain the economic effects of an appreciation of the Ringgit in foreign exchange markets? (5 marks)

End of page